

****Title:**** Westmont Bank (now United Overseas Bank Phils.) vs. Funai Philippines Corporation, et al.

****Facts:****

In April and May 1997, Funai Philippines Corporation and the Spouses Antonio and Sylvia Yutingco obtained loans from Westmont Bank (later United Overseas Bank Phils.) totaling P10,000,000. The loans were secured by promissory notes (PNs) stating that in case of a lawsuit for collection, the borrowers would pay 20% of the total amount due as attorney's fees. The borrowers defaulted, leading Westmont to file a complaint for a sum of money and request a writ of preliminary attachment in January 1998 (Civil Case No. 98-86853).

Following the issuance of the writ, properties associated with the borrowers were attached. Subsequently, in response to claims by Panamax Corporation and others (additional defendants) asserting ownership over some attached properties, Westmont amended its complaint to include these parties as alleged dummies of the original defendants. The Regional Trial Court (RTC) eventually ruled that the original defendants owed Westmont the sum minus auction proceeds but dismissed the claims against the additional defendants for failure to state a cause of action. Westmont's partial motion for reconsideration was denied, leading to an appeal (CA-G.R. CV No. 71933).

Parallely, disputes over the implementation of an execution order and a subsequent contempt charge against Sheriff Carmelo V. Cachero, who enforced the order despite a Temporary Restraining Order (TRO), led to a separate appellate decision (CA-G.R. SP. Nos. 65785 and 66410).

****Issues:****

The Supreme Court deliberated on whether the CA erred in applying the "alter ego" doctrine, the inclusion of additional defendants, the award of attorney's fees, and the handling of exemplary damages (G.R. No. 175733); and whether Sheriff Cachero rightly faced contempt for enforcing the execution order despite the TRO (G.R. No. 180162).

****Court's Decision:****

In G.R. No. 175733, the Supreme Court denied Westmont's petition, affirming the CA's decisions. It agreed that the complaints against the additional defendants were rightfully dismissed due to a failure to state a cause of action. The court differentiated between "failure to state a cause of action" and "lack of cause of action," focusing on the insufficiency of the former's allegations. It ruled the allegations against the additional

defendants as mere legal conclusions without specifying acts that constituted fraud or dummification. On attorney's fees, the Court upheld the reduction to 5% as reasonable, citing the penal clause nature of the attorney's fees provision in the PNs. The Court found no basis for awarding exemplary damages.

In G.R. No. 180162, the Court affirmed Sheriff Cachero's contempt conviction, emphasizing a sheriff's duty to be cautious and prudent. Despite knowing of the TRO, Sheriff Cachero proceeded with the attachment execution, demonstrating intentional defiance.

****Doctrine:****

The Supreme Court clarified the distinction between "failure to state a cause of action" and "lack of cause of action." It reiterated that allegations in a complaint should provide sufficient factual basis for a claim, not mere legal conclusions. It also highlighted the courts' authority to reduce attorney's fees stipulated in contracts when deemed iniquitous or unconscionable.

****Class Notes:****

- ****Failure to State a Cause of Action vs. Lack of Cause of Action:**** The former relates to insufficient allegation details, while the latter concerns insufficiency of factual basis after evidence presentation. Both can ground a complaint's dismissal but differ in their application stage.
- ****Attorney's Fees as Penal Clause:**** The Court recognizes contractual stipulations on attorney's fees as binding but can reduce the amount if it's excessive or unreasonable.
- ****Sheriff's Duties and Contempt:**** Sheriffs must carefully execute court orders, considering legal developments like TROs. Defiance, even in cases of procedural mishaps, can lead to contempt charges.

****Historical Background:****

This case reflects the judiciary's challenge in disputes over loan defaults involving complex party relationships and property interests. The distinction made between failure to state vs. lack of cause/action and the Court's stance on contractual penalties emphasize the legal system's balancing act between strict adherence to contractual obligations and the equitable discretion courts hold in ensuring justice.